

VII. PLEDGE OF DEMAT SECURITIES

1. What is meaning of Pledge?

If an investor takes loan against securities owned by him, then said securities are pledged in favor of the lender (Pledgee). The borrower is called 'Pledgor' and the lender is called 'Pledgee'.

2. Can securities in demat mode be pledged?

Yes. Securities held in demat mode can be pledged. Moreover, procedure for pledging securities in demat form is very convenient, both, for the pledgor and the pledgee.

3. What is the procedure for pledging securities?

Following are the steps involved in pledging of demat securities:

- The pledgor and the pledgee must have BO accounts with CDSL. These accounts can be with the same DP or with different DPs.
- Pledgor BO will ensure that securities he/she intends to pledge are in approved list of Pledgee
- The pledgor BO has to fill up the Pledge Request Form (PRF) in duplicate and submit the same to its DP.
- On receipt of the PRF from the pledgor, the pledgor's DP will set up a pledge request in the depository system and a unique Pledge Sequence No. (PSN) will be generated.
- The pledge request is available to pledgee's DP through Depository system. The pledgee will have to submit instructions to its DP for acceptance or rejection of pledge request by filling up the pledge request form accordingly. If pledgee has given standing instructions to accept the pledges created in its favor to its DP, then pledgee need not submit an instruction to accept the pledge to its DP separately.
- The pledge gets created on acceptance of pledge request by the pledgee DP.
- The loan agreement and disbursement of loan is outside the Depository system. The pledgee is required to inform only the agreement no. in pledge request form.

4. What is the procedure to be followed by Pledgor after execution of pledge request through his/her Depository Participant?

Pledgor should inform the Pledgee about the pledge setup so that pledgee can submit instructions to its DP for acceptance or rejection of pledge request by filling up the pledge request form within 15 days from the date of pledge setup. If the pledge request is not accepted by the pledgee through its DP within 15 days from setup, the depository system will close/cancel the pledge set up request automatically.

5. In physical form pledged shares have to be handed over to the pledgor. What happens when dematerialized securities are pledged?

When dematerialized securities are pledged, they remain in the pledgor BO's demat account but they are blocked so that the same cannot be used for any other transaction.

6. How are the securities unpledged in the depository system after the loan is repaid?

- The pledgor has to fill up the Unpledge Request Form (URF) in duplicate and submit the same to its DP.
- On receipt of the URF, the pledgor's DP set up an unpledge request in the depository system using the PSN generated at the time of creating the pledge. An unpledge request can be for part or entire quantity of pledged securities.
- The pledgee's DP has the facility to access the request through Depository system. Based on copy of URF submitted by the pledgor, the pledgee's DP either accepts or rejects the unpledge request.
- The securities can also be unpledged by the Pledgee giving duly filled URF to his DP instructing to unpledge the securities. This facility is called "Auto Unpledge" where no instruction is required to be given by the Pledgor.

7. How is a pledge invoked if the loan is not repaid?

The pledgee may instruct the DP to invoke the pledge by submitting Invocation Request Form' (IRF). On execution of this instruction, the securities are moved from Pledgor's account to the pledgee's account. Invocation does not require any confirmation from the pledgor. Pledgor is informed of the movement of securities by his DP.

8. Can all types of securities be pledged?

Yes. Technically all types of securities can be pledged. It depends on pledgee to accept a security for pledge or not.

9. Can lock-in securities be pledged?

Yes. CDSL system permits pledging of lock-in securities. Pledged securities which are under lock-in can be invoked by the pledgee only after the lock in period is over.

10. Who receives corporate benefits on the pledged securities?

The pledgor continues to remain the beneficial owner of the pledged securities and will, therefore, be receiving the corporate benefits during the period of pledge.